

Message Text

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ACTION STR-04

INFO OCT-01 ARA-06 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

TAR-01 TRSE-00 PRS-01 SP-02 OMB-01 SSO-00 NSCE-00

INRE-00 USIE-00 /081 W

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O R 192100Z SEP 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 1609

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E.O.11652: N/A

TAGS: ETRD

SUBJECT: MOTOR VEHICLE DOMESTIC CONTENT REQUIREMENTS

REF: STATE 218027

1. SUMMARY: AUTOMOBILE DOMESTIC CONTENT SCHEME PRESENTLY IN EFFECT IN BRAZIL APPLIES TO INVESTORS BUT NOT IMPORTERS. RESOLUTIONS OF INDUSTRIAL DEVELOPMENT COUNCIL (CDI), DIVISION OF MINISTRY OF INDUSTRY AND COMMERCE, ESTABLISH PERCENTAGES OF TOTAL VALUE FOR EACH TYPE OF MOTOR VEHICLE WHICH MUST BE OF DOMESTIC ORIGIN. FOLLOWING MESSAGE WAS PREPARED BY AMCONGEN SAO PAULO AND AMEMBASSY BRASILIA. END SUMMARY:

2. AUTOMOBILE DOMESTIC CONTENT SCHEME PRESENTLY IN EFFECT IN BRAZIL APPLIES TO INVESTORS BUT NOT IMPORTERS. IN ITS RESOLUTION NO 20/72 OF AUGUST 29, 1972, INDUSTRIAL DEVELOPMENT COUNCIL (CDI), DIVISION OF MINISTRY OF INDUSTRY AND COMMERCE, ESTABLISHED "INDICES OF NATIONALIZATION", OR IN OTHER WORDS, LIMITED OFFICIAL USE

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PERCENTAGES OF TOTAL VALUE OF DIFFERENT TYPES OF MOTOR VEHICLES

WHICH HAVE TO BE OF DOMESTIC ORIGIN.

3. RESOLUTION 20 ALSO DIFFERENTIATED BETWEEN THOSE MANUFACTURERS WITH A GOB APPROVED EXPORT PROGRAM AND THOSE WITHOUT SUCH A PROGRAM. COMPANIES WITH AN EXPORT PROGRAM WERE FAVORED AND WERE ALLOWED A LOWER LEVEL OF LOCAL CONTENT BY VALUE. THESE VALUE CONTENTS WERE 78/80 PERCENT FOR TRUCKS, 82 PERCENT FOR UTILITY TYPE VEHICLES, 85 PERCENT FOR PASSENGER CARS, 95 PERCENT FOR JEEP TYPE VEHICLES. MOTOR VEHICLE MANUFACTURERS WITH NO APPROVED EXPORT PROGRAMS WERE REQUIRED TO MANUFACTURE VEHICLES WITH A 95 PERCENT LOCAL VALUE CONTENT.

4. IMPORTS OF PARTS AND COMPONENTS FROM LAFTA NATIONS THAT ASSURE RECIPROCAL TERMS TO BRAZIL ARE CONSIDERED EQUAL TO PARTS AND COMPONENTS OF BRAZILIAN ORIGIN SO LONG AS THEY TOTAL NOT MORE THAN 5 PERCENT OF VALUE CONTENT OF VEHICLE.

5. NO OTHER CDI RESOLUTION ALTERING THE IMPORT VALUE CONTENT SYSTEM HAS BEEN INTRODUCED SINCE RESOLUTION 20. IT SHOULD BE NOTED, HOWEVER, THAT RESOLUTION 25 WAS ISSUED IN 1974 BY CDI. IT DEALS EXCLUSIVELY WITH TRACTORS AND ALTERS THE LOCAL WEIGHTS CONTENT SYSTEM (95 PERCENT) TO A LOCAL NET VALUE CONTENT SYSTEM (90 PERCENT).

6. THE GOB HAS NEVER INTRODUCED LEGISLATION REQUIRING LOCAL PART CONTENT ON IMPORTED CARS. IT HAS, HOWEVER, ESTABLISHED VERY HIGH TARIFF BARRIERS, GENERALLY OVER 100 PERCENT, ON IMPORTED VEHICLES TO DISCOURAGE THEIR IMPORTATION INTO BRAZIL.

7. PURPOSE OF RESOLUTION 20, AS WELL AS 1956 DECREE WHICH PRECEDED RESOLUTION 20, IS TO PROMOTE DEVELOPMENT OF NATIONAL AUTOMOBILE INDUSTRY. FOLLOWING IS BRIEF DESCRIPTION OF BRAZIL'S MOTOR VEHICLE DOMESTIC CONTENT SCHEME PRIOR TO RESOLUTION 20.

8. BRAZIL'S AUTOMOBILE INDUSTRY WAS ESTABLISHED BY PRESIDENTIAL DECREE IN AUGUST 1956 AND WAS ONE OF 30 AREAS FOR NATIONAL DEVELOPMENT UNDER PRESIDENT KUBITSCHKE ADMINISTRATION. FOR EIGHT YEARS, UNTIL IT WAS FINALLY ABSORBED INTO NEWLY FORMED MINISTRY OF INDUSTRY AND COMMERCE, GEIA, GROUP OF LIMITED OFFICIAL USE

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EXECUTIVE DA INDUSTRIA AUTOMOBILISTICA, WAS GOB AGENCY WHICH ESTABLISHED GROUND RULES FOR INCENTIVES EXTENDED TO MOTOR VEHICLE MANUFACTURERS. GEIA ALSO ESTABLISHED LOCAL CONTENT REQUIREMENT WHICH HAD TO BE STRICTLY ADHERED TO BY AUTO MANUFACTURERS. LOCAL CONTENT REQUIREMENTS WERE ALWAYS BASED IN TERMS OF WEIGHT OF THE VEHICLE RATHER THAN VALUE. MOTOR VEHICLE MANUFACTURERS WERE REQUIRED TO ATTAIN LOCAL WEIGHT CONTENT OF 95 PERCENT FOR ALL VEHICLES BY DECEMBER 31,

1960. THIS TARGET WAS ATTAINED BY ALL MANUFACTURERS EXCEPT FABRICA NACIONAL DE MOTORES WHICH AT THE TIME WAS FINANCIALLY CONTROLLED BY THE GOB. BY 1962 PRACTICALLY ALL MANUFACTURERS WERE PRODUCING MOTOR VEHICLES WITH A LOCAL WEIGHT CONTENT OF BETWEEN 97/98 PERCENT.

9. THE SYTEM OF LOCAL CONTENT WAS ALTERED FROM ONE OF WEIGHT TO ONE OF VALUE BY RESOLUTION 20.
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